PepsiCo, Inc. Annual Report 1970

Contents

On the Cover:
Golden Gate Bridge symbolizes San Francisco—a city, like many in the 50 States and 123 other countries where people enjoy the consumer products marketed by PepsiCo and where, in turn, PepsiCo plays a role in the economic and civic life of the community. In this report, we have examined the ways San Francisco, as a typical town, affects PepsiCo, and how PepsiCo affects San Francisco.

Annual Meeting

The Annual Meeting of stockholders will be held at the office of the Corporation, 100 West Tenth Street in Wilmington, Delaware, at 2:00 p.m. (E.D.T.) Wednesday, May 5, 1971. Proxies for the meeting will be solicited by management in a separate Proxy Statement. This report is not a part of such proxy solicitation and is not to be used as such.

Transfer Agents

Marine Midland Bank—New York, New York, N.Y.
First Jersey National Bank, Jersey City, N. J.
Harris Trust and Savings Bank, Chicago, Ill.
First National Bank in Dallas, Dallas, Texas
The Fulton National Bank of Atlanta, Atlanta, Ga.

Registrars

The Chase Manhattan Bank N.A., New York, N.Y.
The First National Bank of Chicago, Chicago, Ill.
Republic National Bank of Dallas, Dallas, Texas
The First National Bank of Atlanta, Atlanta, Ga.

Auditors

Arthur Young & Company, New York, N.Y.

Financial Highlights

Net Sales in 1970 were $1,122,593,000, an 18 percent increase over $949,390,000 in 1969.

Earnings for 1970 were $56,053,000 compared with $51,884,000 before extraordinary charges of $11,394,000 in 1969 (as restated).

Earnings Per Share were $2.49 or 7 per cent over $2.33 before extraordinary items for 1969. Net income per share after extraordinary items in 1969 was $1.82 (as restated).

Average Shares Outstanding were 22,547,198 for 1970 and 22,286,390 for 1969.

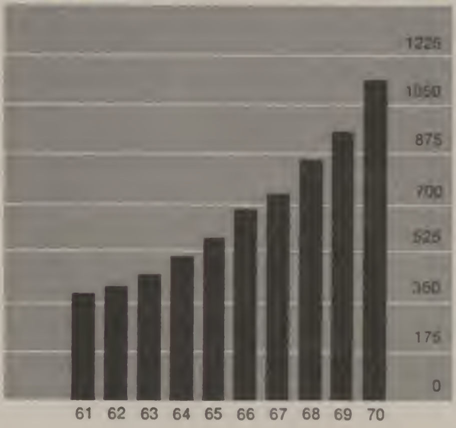
Dividends paid were $22,594,000 for 1970 and $21,758,000 for 1969.

Plant and Equipment Expenditures were $63,442,000 in 1970 as compared with $70,235,000 in 1969.

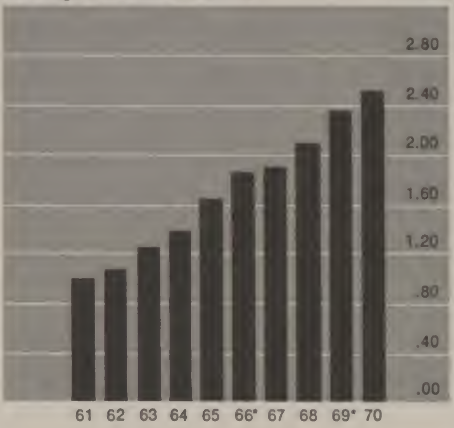
Depreciation and Amortization was $26,030,000 and $23,832,000 for 1970 and 1969, respectively.

Shareholders' Equity increased to $331,240,000 at the end of 1970, compared with $288,659,000 for 1969 (as restated).

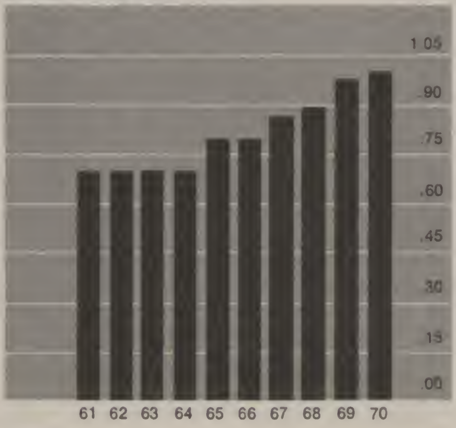
Net Sales 1961-70 In Millions



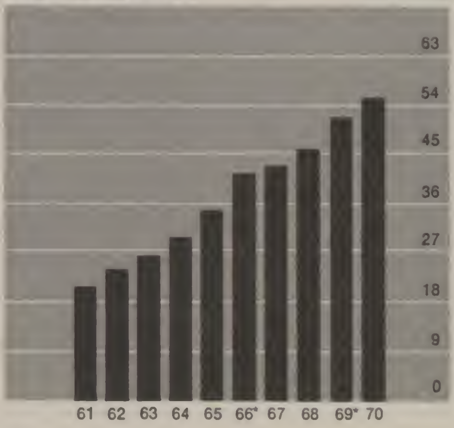
Earnings Per Share 1961-70 In Dollars



Dividends Per Share 1961-70 In Dollars



Net Income 1961-70 In Millions



*Before Extraordinary Items

To the Shareholders:

When this experimental plastic Pepsi-Cola bottle has finished burning, only a fine ash will be left, and no gases will have been given off to pollute the environment.

In 1970, for the first time, PepsiCo's sales passed a billion dollars.

Both sales and earnings reflect the acquisition of a 74 percent interest in Wilson Sporting Goods Co. on February 27, 1970. Early in 1971, as previously announced, we acquired additional shares of Wilson stock and now hold 81 percent. We plan to acquire all the remaining shares of Wilson within the next two years.

Net sales for 1970 were $1,122,593,000, an increase of 18 percent over $949,390,000 in 1969. Excluding sales of Wilson from the 1970 total, sales increased 8 percent.

Earnings in 1970 reached $56,053,000, compared with $51,884,000 last year, before 1969 extraordinary items. Earnings per share also reached a new high of $2.49, an increase of 7 percent over $2.33, before extraordinary items, in 1969. Net income for 1969 has been restated to $40,490,000, after including as an extraordinary item a provision for losses on disposal of our Montezuma sugar facility in the amount of $8,914,000 (net of income taxes). Due to the inability of the lessee of this plant to overcome the significant problems which existed at the end of 1969, we have repossessed the plant and are in the process of disposing of it.

We refer you to the Income Statement on page 32 and to note two to the financial statements on page 34 for the details related to accounting for this extraordinary item.

The theme of this report reflects how PepsiCo, through the manufacture and distribution of its products and through its service activities, benefits the people in the communities in which it operates. Although many of the scenes in this report feature San Francisco, PepsiCo could have selected many other locales in almost any other part of the world in which to depict the role it plays in any given area.

The completion and proven efficiency of our new World Headquarters complex in Purchase, New York, is an important accomplishment. Edward Durell Stone, world renowned architect, created an innovative design for the new headquarters—seven buildings, each joined to the next at the corner like squares on a chessboard. The complex of buildings fits comfortably into the beautifully landscaped surroundings and there is ample room for future expansion.

Three directors retired during the year: James B. Somerall, formerly president of Pepsi-Cola Company, Fladger F. Tannery, formerly chairman of PepsiCo International and a former president of Frito-Lay and the late Harry E. Gould. We express our appreciation to those men for valued service and welcome to the Board Victor A. Bonomo, president of Pepsi-Cola Company, and Bernard Lasker, Senior Partner, Lasker, Stone & Stern and currently Chairman of the Board of Governors of the New York Stock Exchange.

PepsiCo's well-rounded, aggressive management team was further strengthened in 1970 when Thomas P. Mullaney was elected president of Wilson Sporting Goods Co.

Long-term financing for the purchase of a controlling interest in Wilson resulted in the issuance of $75 million of 10-year notes in Europe. Interest on these notes is at a "floating rate" based upon the London interbank rate. In view of the extremely high interest cost of alternate financing available to us last June, we believe that the "floating rate" of these notes will result in a lower net interest cost over the term of the notes. In this regard our initial interest rate of 10⅜ percent was reset at the end of February, 1971 at 6⅝ percent for the ensuing six months.

Dividends of $22,594,000, equivalent to $1.00 per share, were distributed to shareholders during 1970.

Encouraging progress was made in 1970, in the development and testing of a burnable plastic bottle, *as seen on the facing page*. This bottle burns to a fine ash, with no harmful gases or fumes to pollute the atmosphere. If such a bottle can be made available in sufficient volume, it will provide another weapon against this small


PEPSI-COLA
colored with

On an autumn weekend in San Francisco, a student plays clarinet with the city's renowned symphony, under a program sponsored by the local Pepsi-Cola bottler...

segment of the overall solid waste problem—although the ultimate solution to litter cannot be found until people stop being thoughtless and careless. Recognizing the severity of the vast pollution problem, the management of PepsiCo has continuously taken an active role in coping with it. As an example, we have taken a significant interest in the National Center for Solid Waste Disposal, Inc., in which a large number of America's leading industrialists are jointly seeking solutions to combat this threat.

We at this time wish to express our appreciation to the "PepsiCo family" —more than 30,000 loyal, dedicated employees—who performed in an excellent manner during the year. These employees played great parts in not only making our company a prosperous and growing one, but also in making their towns and cities better places in which to live. We strongly encourage their continued efforts in this respect.

We have again experienced the advantages that often come from a balanced diversification of lines of business and are confident that 1971 will be another year of continued growth.

Donald M. Kendall

Donald M. Kendall
President and
Chief Executive Officer

Herman W. Lay

Herman W. Lay
Chairman of the Board

March 16, 1971

San Francisco, October 1970.

San Francisco is a study in the workings of PepsiCo in microcosm.

Practically everything PepsiCo does, virtually every domestic product it makes and markets and nearly every service it performs can be found there.

Three teenage American Indian girls search along Fisherman's Wharf for the launch that will take them to Alcatraz Island, where along with other Indians they are conducting a sit-in protest. They are dressed alike in buckskins and blue jeans, and each clutches a can of Pepsi-Cola.

A franchised Pepsi-Cola bottler markets soft drinks from a main plant in San Francisco and three others in the suburbs, delivering his cases of cans and bottles on a fleet of trucks splashed with the modern color scheme of Pepsi-Cola Company.

Drive down U.S. 101 to San Jose, turn left, and you'll find a Frito-Lay plant turning out Lay's potato chips and Fritos corn chips from tons of potatoes and corn harvested on California farms.

Those packages of fresh snack foods, in turn, are distributed by a hundred routes crisscrossing the Bay Area, covering nearly every supermarket, corner grocery, nearly every possible outlet.

Across the bay in Oakland, Pepsi-Cola and Diet Pepsi-Cola concentrates are formulated for shipment to other points in the West.

The "game ball" his teammates gave to a Stanford quarterback for leading them to the Rose Bowl for the first time in 20 years was a Wilson "TD." So, too, were items of equipment like their shoulderpads and helmets. When the golf pro at Lincoln Park sells a new set of clubs, likely as not, they are Wilson.

On a wet Sunday, twin sisters, young no more, trudge up Nob Hill. They are dressed alike in red slickers, red rainhats, red umbrellas, and even matching shopping bags. They sit in a hall off the lobby of a plush hotel and share a bag of Lay's potato chips.

When he spends an evening in front of his television set, the odds are long that the typical San Franciscan will see at least one message assuring him, "Diet Pepsi—You'll do a Double Take." If he's a tennis fan, likely as not he journeyed to Berkeley for the round of the Pepsi-Cola Grand Prix played there. Should he be foolish enough to contemplate leaving San Francisco, one of the franchised North American Van Lines agents in the area can do the job. The San Franciscan can lease a convertible from Executive Car or rent a step-in van from PepsiCo Truck Rental. His doctor can afford a sensitive and costly piece of office equipment through a program offered by Chandler Leasing Division.

Or he might be one of the people in the Bay Area who rips open an envelope each quarter in anticipation of his regular PepsiCo dividend.

Dawn is barely glinting on the Pacific when four men, older, probably retired, begin their rounds. They carry only a wood and a couple of irons apiece, playing at a furious pace as if to complete their round before another golfer encroaches on the silence, never even stopping to putt-out their Wilson K-28 balls on the green.

Last year, the people of the San Francisco Bay Area spent more than $26 million on PepsiCo-marketed soft drinks, snack foods and sporting goods. They leased another $12 million worth of sophisticated test and manufacturing equipment, cars and trucks from PepsiCo companies; most of those items were bought from local dealers.

Through its company-owned operations and its franchised bottlers and agents, PepsiCo provides 900 jobs in the Bay Area with an annual payroll in excess of $8.5 million—this in a region with less than four million persons. In addition, the PepsiCo companies spent another $7 million on raw materials and packages bought locally, fueled the area economy with thousands of dollars more spent on local advertising.

And, equally as important as those economic contributions to the life of the Bay Area, both PepsiCo's companies and its people play important

roles in community life.

But San Francisco is hardly an unusual town in those respects. There are many other places, like Chicago or Mexico City, where its products enjoy an equally great share of market. There are many other communities where its individual people play an equally active role in civic leadership.

San Francisco is important not because it is in any way unusual, but because it is typical of the way PepsiCo, through the sales of its products to people of all generations and stations of life and in return through the roles it plays, becomes a very important part of the muscle and fibre of the community.

The Stanford cheerleaders are exhorting their football team to beat Oregon State. But between cheers, they use their megaphones to ask students in the stands to pass down their empty Pepsi-Cola cans—Pepsi is the only cola sold at those games—to big cardboard boxes on the sidelines, so that they can be collected and re-cycled.

What are some of the roles PepsiCo and its people play in the community?

Hardy Vanderbeek used to be the mayor and a member of the planning board in Ripon, a farming community of some 2,500 persons south of San Francisco. Now he's manager of the local Little League team, president of the Lions Club and Volunteer Fire Department, and a deacon in his church. He is also a hard-working Frito-Lay route salesman.

"Some people wonder how I can handle all those extra-curricular activities and my sales route, too," Vanderbeek admits. "But there's no conflict, because I make all my meetings after six o'clock. Even so, I don't think there would ever be a problem, because my bosses at Frito-Lay have been pleased over my involvement in local affairs, and they encourage me in it. I understand it's even a company policy to do so."

The cut of his clothes and his accent indicate that the man filming the local tourist sights in North Beach is an overseas visitor to San Francisco, one of many. He puts down his movie camera on a sidewalk counter, and samples some of the famed local crab and a Pepsi-Cola.

Marian Mikel is a white-haired woman who runs the refreshment stand in Stinson Beach, a sliver of sand between the California cliffs and the surf itself. San Francisco is only a few miles away, but the drive over a twisting mountain road takes more than an hour.

"I don't know how I could stay in business without the boys from Pepsi-Cola," says Mrs. Mikel, with a sweep of her hand towards the Pepsi sign boards that form an almost integral part of her little stand.

"The mountain road is so treacherous," she explains, "that we have a tough time getting people to make deliveries here. No deliveries and we're out of business. But Pepsi-Cola has never let us down, and they've helped us out in a lot of ways, like making those signboards for the stand, and putting in that new Pepsi cooler."

The store, near the Presidio district, sells only blue jeans, a sort of San Francisco youth uniform. A salesgirl perches atop a rack of jeans in an idle moment, eating from a bag of Fritos corn chips.

Jack Legg is manager of Wilson Sporting Goods' operations in San Francisco. In a philosophical mood, he says: "A lot of people will tell you that only the companies which can expect to do business in the Black and Mexican communities will do anything there. Well, the market for tennis racquets and golf clubs and stuff like that has to be a pretty affluent, middle-class one. And yet I don't think we've forgotten our responsibilities.

"For instance, there's a group of kids in the Mission district, most of them from Mexican families, who call themselves the 'Mission Rebels.' They don't have much but a good attitude; their motto is, 'Thanks, but we'd rather do it ourselves.' We've helped them do it themselves by getting them baseball

uniforms and gloves, footballs, and stuff like that, not much to us, but a lot to them."

He continues: "Then we have the Wilson advisory staff. That's made up mostly from a lot of top pros who are the best in their games. We have people like John Brodie, the quarterback for the Forty-Niners, who in the off-season go around for us, speaking to kids at high school banquets, giving sports clinics to show the right techniques.

"But we have other players on the staff here, young kids who haven't become big names yet. That might be someone like Cecelia Martinez, a young Mexican-American girl who'd like to become a tournament-level tennis player; we help out youngsters like this by making sure they have the best in equipment, things they might not otherwise afford."

Sunday afternoon in Sausalito. A bumper-to-bumper line of cars clogs the single main street, their occupants gawking at the hip kids in their sometimes outlandish costumes. A station wagon creeps by, mother, father and four children inside, each with his individual bottle of Pepsi.

At Stanford University, they sell Pepsi-Cola in the stadiums and gymnasiums, from vending machines in the dormitories, and the cafeteria stocks both Pepsi and the full line of Frito-Lay snacks. The university's research arm leases an impressive inventory of scientific equipment from PepsiCo Leasing.

And when the university band marched onto the field for a halftime football show, with national TV cameras focused on it, the marchers kept time to the theme music from Diet Pepsi-Cola commercials.

One of San Francisco's ancient trolley cars clangs its bell twice as it starts its run up Market Street. As it pulls away up the incline, a Pepsi-Cola ad is visible on its rear deck.

Richard Campodonico is president of the Pepsi-Cola Bottling Company of San Francisco, an independent local businessman franchised to sell Pepsi-Cola and other PepsiCo soft drinks in that area. As such, he is probably the most visible and important emissary of PepsiCo in that community.

"We cover every inch of San Francisco," he says proudly. "We cover everything from the new Bank of America Headquarters on California Street, the newest and biggest office building in town, where they serve only Pepsi-Cola in all the cafeterias and dining rooms, down to the little ferries that run across the bay to Sausalito and Tiburon, and have Pepsi at their snack bars. And we blanket everything in between—the stadiums, Chinatown, the Embarcadero.

"Like the parent company, we realize that we're in business to do a lot more than just sell soft drinks and make a profit."

As a result of that philosophy, Campodonico's company is deeply entrenched in neighborhood life in San Francisco. It sponsors a contest in local high schools in which, each year, five or six of the best student musicians have a chance to play, before a packed audience of their classmates and parents, with the famed San Francisco Symphony; the company also sponsors several live radio broadcasts of symphony programs each year. "Those kind of broadcasts are as much public service as they are advertising," Campodonico says.

A group of Army reservists, in fatigues for a weekend drill, share from a big bag of Fritos corn chips as their olive drab truck rolls across the Golden Gate Bridge.

In addition, the Pepsi-Cola bottler takes an active role in a dozen other youth-oriented programs, including sponsoring a team in a basketball league from predominately Black neighborhoods, and sponsoring a year-end tournament, an awards banquet and trophies for the entire league.

"But we don't limit our activities to what the company can handle," Campodonico says. "We encourage all

our people—from the vice president down to the route salesman—to do what he can in his community."

A sleek sailboat heels into the salt spray as it rounds a point of land and heads for the Golden Gate and blue water; its captain, at the helm, leases that craft from a subsidiary of PepsiCo.

Ed Jacopetti is manager of the Pepsi-Cola bottling plant in Santa Rosa, a small community in the heart of California's famed wine-producing region.

In addition to that job, Jacopetti is active in local service organizations and was president of the local Chamber of Commerce; as such, he has been both active and successful in attracting new businesses—particularly the kind that can both contribute to and benefit from the rural ambience of Santa Rosa—to his community.

"I guess you might say that getting more business and more jobs in Santa Rosa is good for selling Pepsi-Cola," Jacopetti admits. "But my interest goes a lot deeper than that. I believe that a manager should have deep roots in his community and take an active role in what's going on around him, and my boss agrees."

A Chinatown merchant, dressed in a typical green smock, stands on a sidewalk swirling with San Francisco natives and tourists, surveying his displays of Chinese vegetables, persimmons, and ginseng root—and nibbles from a bag of Lay's potato chips.

Robert C. Held is a retired Broadway actor whose nest egg includes a generous block of PepsiCo stock. He's interested in Chinese porcelains, Italian cooking, French antiques, and the way his stock portfolio performs.

"I bought some of my shares as Pepsi-Cola," he recalls, "and some as Frito-Lay stock. I'd figured both of them for growth companies a long way back. After the merger, of course, all those shares became PepsiCo stock."

"Through the years," he continues, "what with dividends and splits, those shares have been pretty good to me. I just got another dividend check the other day, and I think that's going to buy me a Chinese antique porcelain I've had my eye on for quite a while."

The line of pickets, several hundred strong, marches resolutely down a San Francisco street, their placards protesting a new skyscraper whose bulk they feel will mar the city's skyline. The protest finished, they neatly stash their signs in sidewalk baskets, and from brown bags and coolers, break out sandwiches and cans of Pepsi-Cola.

A gaggle of small waterfowl is stuck in the oil spilled when two tankers collided off the Golden Gate. A young girl, one of hundreds of volunteers of all ages and callings, wades hip deep to scoop up a bird and carry it to shore. There she pauses for a can of Pepsi-Cola, provided free for the rescue volunteers by the local Pepsi-Cola bottler.

Lou Uranga is regional sales manager for Frito-Lay products in the San Francisco Bay area.

"We sell the full line of Frito-Lay products here—Lay's potato chips, Ruffles potato chips, Fritos corn chips and Doritos tortilla chips, Chee·tos cheese puffs, the whole works," Uranga says.

"There are six big supermarket chains in the area, and we market our products through all of them. We had particularly good results last year in showing one of the biggest chains how our Space Management program would benefit everybody—the store, the customer and Frito-Lay.

"Up until now, snacks have been marketed mostly by end aisle displays. We wanted to convince the chain that creating a whole snack section was what the customer wanted, and would mean more sales. We also wanted to demonstrate that because there's such rapid turnover, a foot of shelf space devoted to snacks can mean a lot more sales dollars than if that same space was devoted to slower moving, lower profit items.

"He was kind of skeptical," Uranga

continues, "but he did give us a go-ahead to try the concept in a few stores. Well, every store in the test did at least a 30 percent increase in snack business, and now the chain is gradually converting the rest of its local stores to those new concepts."

But most important of all, Uranga points out, the chain's local management now looks to Frito-Lay for snack food marketing expertise.

A famed architect has called San Francisco the most livable American city today. Poets have written couplets to it, songwriters have written ballads. It has its share of problems and protest and more than its share of promises.

In many respects, San Francisco and the Bay Area are no different from any other major urban area in America. In one respect, they are certainly no different at all—the involvement of the people of the city with PepsiCo's products, and in return, the involvement of PepsiCo and its people with the city.

We could examine almost any other American city, and many other areas of the world and tell this same story. The geography would change a bit, certainly the details of the people and their involvements.

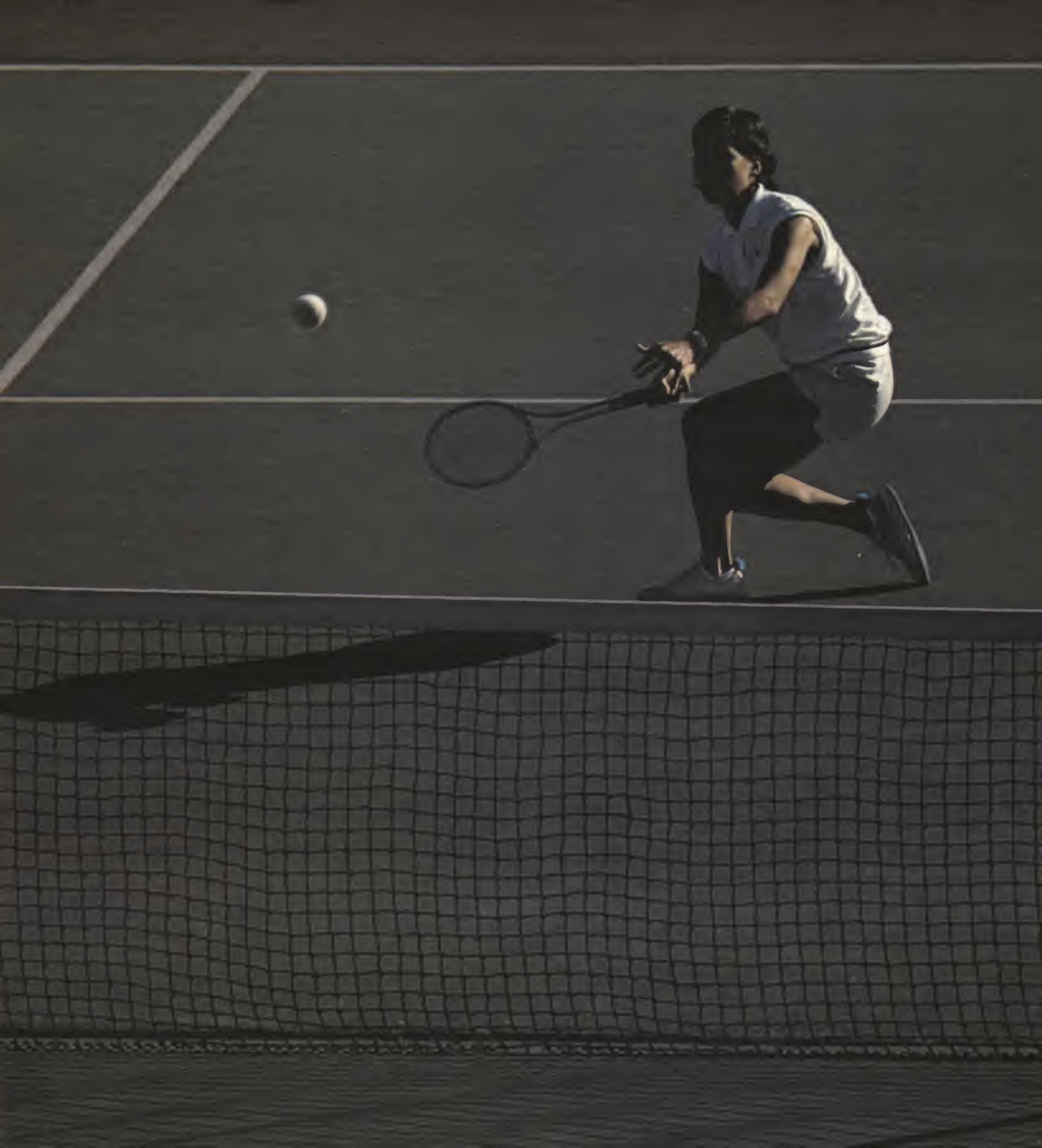
But there are few cities, towns, or hamlets that don't take the enjoyment of PepsiCo's products for granted, as part of their everyday living. Where these products are found, there are PepsiCo people involved with their neighbors in handling the problems of their communities.

...while in Santa Rosa to the north, the manager of the local Pepsi-Cola plant, in his dual role as a local Chamber of Commerce official, extolls the advantages of relocating a business there.

In Cupertina, a Frito-Lay manager takes his scout troop hiking into the foothills. In San Francisco's Mission district, Mexican youths play baseball with Wilson uniforms, bats and gloves, while not far away, four Black teenagers use a schoolyard backboard and tattered net to practice for their basketball league, sponsored by Pepsi-Cola.

In the shadows of the Stanford University stadium, a couple pauses for a cooling soft drink...

While North American Van Lines moves a family across the Golden Gate to its new home in Mill Valley, a retired actor discusses his PepsiCo shares with his stockbroker; and a young Mexican girl, a member of the Wilson staff, drills hard in the hope of becoming a tournament pro.




Lay's
POTATO CHIPS


Fritos

Those product lines are provided by two of the most elaborate and effective distribution systems in the world—the route delivery systems of Frito-Lay and of the local Pepsi-Cola bottler.






Lay's







Fritos


Lay's

PEPSI

All over the Bay Area that gold vermillion weekend, people of all ages and walks of life—from the Chinatown storekeeper to the motorcycle cop on Fisherman's Wharf to the Haight-Ashbury hippy—enjoyed the soft drinks marketed by Pepsi-Cola, the snacks made by Frito-Lay.

The people of San Francisco spent that weekend in a thousand ways. They chose a stadium seat in Oakland to watch controlled fury played with a Wilson "NFL" football... a quiet park bench off Ghirardelli Square...

. . . marching in the college band, or renting a truck to trundle home a bargain piano . . .

...rising at dawn to tee off with a new set of Wilson clubs...

Report of Certified Public Accountants

Board of Directors and Shareholders,
PepsiCo, Inc.

We have examined the accompanying consolidated balance sheet of PepsiCo, Inc. and subsidiaries at December 26, 1970 and the related statements of consolidated income and retained earnings and consolidated source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously made a similar examination of the financial statements for the prior year.

In our report dated March 16, 1970 relating to the financial statements for the year ended December 27, 1969, our opinion was qualified subject to adjustment of the carrying value of the Company's beet/cane sugar facility. As a result of the resolution of the then existing uncertainties, the 1969 financial statements have been restated to give effect to such adjustment, providing for loss on disposal of the facility (see Note 2), and accordingly, the qualification of our opinion as to this matter is removed.

In our opinion, the statements mentioned above present fairly the consolidated financial position of PepsiCo, Inc. and subsidiaries at December 26, 1970 and December 27, 1969 (as restated) and the consolidated results of their operations and the consolidated source and application of their funds for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company

277 Park Avenue
New York, N.Y.
March 9, 1971

Consolidated Balance Sheet
PepsiCo, Inc. and Subsidiaries
December 26, 1970 and December 27, 1969

	1970	1969*
	(in thousands)	
ASSETS		
Current Assets		
Cash	$ 30,848	$ 31,413
Short-term securities (approximates market)	45,184	28,813
Notes and accounts receivable, less allowance	109,362	83,851
Inventories — at cost (average or first-in, first-out method) not in excess of market	113,234	58,876
Prepaid expenses	12,760	13,526
	311,388	216,479
Investments and Long-Term Receivables		
Leasing subsidiaries—at equity	76,348	66,012
Receivables (non-current) and other investments—at cost	19,806	8,279
	96,154	74,291
Property, Plant and Equipment, at Cost		
Land	17,149	15,963
Buildings	102,250	80,802
Machinery and equipment	255,669	227,136
Bottles and cases	49,432	42,200
	424,500	366,101
Less accumulated depreciation	150,462	136,365
	274,038	229,736
Goodwill—cost in excess of net assets of companies acquired, without amortization	62,590	7,724
Other Assets	13,725	10,761
	$ 757,895	$ 538,991

*As restated
See accompanying notes.

LIABILITIES AND SHAREHOLDERS' EQUITY	1970	1969*
	(in thousands)	
Current Liabilities		
Notes payable (including current installments on long-term debt)	$ 74,251	$ 25,276
Accounts payable and accrued liabilities	109,304	98,948
United States and foreign income taxes	16,309	16,198
Customers' deposits on bottles and cases	14,359	14,734
	214,223	155,156
Long-Term Debt	177,514	91,112
Other Liabilities and Deferred Credits	8,946	4,064
Deferred Income Taxes	4,500	—
Minority Interest	21,472	—
Shareholders' Equity		
Capital stock, par value 16⅔¢ per share; authorized 30,000,000 shares; issued and outstanding 1970 — 22,714,508 shares; 1969—22,385,946 shares	3,786	3,731
Capital in excess of par value	62,538	53,471
Retained earnings	264,916	231,457
	331,240	288,659
	$ 757,895	$ 538,991

Consolidated Statement of Income and Retained Earnings

PepsiCo, Inc. and Subsidiaries
Years ended December 26, 1970 and December 27, 1969

	1970	1969*
	(in thousands)	
Revenues		
Net sales	$1,122,593	$ 949,390
Interest and other income	11,036	6,564
Total revenues	1,133,629	955,954
Costs and Expenses		
Cost of sales	613,122	504,671
Marketing, administrative and other expenses	409,447	354,897
Interest expense	13,819	5,392
Total costs and expenses	1,036,388	864,960
	97,241	90,994
Provision for United States and foreign income taxes (including deferred: 1970—$4,500,000; 1969—$1,200,000)	41,200	42,000
	56,041	48,994
Equity in net income of leasing subsidiaries	12	2,890
Income Before Extraordinary Items	56,053	51,884
Extraordinary Items		
Provision for losses on cyclamate ban, net of $2,770,000 income tax benefit	–	2,480
Provision for loss on disposal of sugar facility, net of $7,530,000 income tax benefit (Note 2)	–	8,914
Net Income	56,053	40,490
Retained earnings at beginning of year	231,457	212,725
Cash dividends (per share: 1970—$1.00; 1969—$.975)	(22,594)	(21,758)
Retained earnings at end of year	$ 264,916	$ 231,457
Net Income Per Share (based on average shares outstanding)		
Income before extraordinary items	$ 2.49	$ 2.33
Extraordinary items	–	(.51)
Net income	$ 2.49	$ 1.82

*As restated
See accompanying notes.

Consolidated Statement of Source and Application of Funds

PepsiCo, Inc. and Subsidiaries
Years ended December 26, 1970 and December 27, 1969

	1970	1969*
	(in thousands)	
Source of Funds		
Operations		
Net income	$ 56,053	$ 40,490
Depreciation (principally straight-line) and amortization	26,030	23,832
Deferred income taxes (principally from accelerated depreciation)	4,500	1,200
Capital stock	3,824	4,246
Long-term debt and other liabilities	60,861	25,044
Property disposals	9,005	23,966
Working capital of companies acquired	52,969	—
	213,242	118,778
Application of Funds		
Dividends	22,594	21,758
Companies acquired for cash	65,817	—
Plant and equipment	63,442	70,235
Containers—net	7,232	8,554
Advances to leasing subsidiaries	10,336	43,648
Prepaid income tax benefit—sugar facility	—	7,530
Other	7,979	1,303
	177,400	153,028
Increase (decrease) in working capital	$ 35,842	$ (34,250)

*As restated
See accompanying notes.

Notes to Consolidated Financial Statements

Note 1—Principles of consolidation. In February, 1970, the Company acquired 74% of the voting securities of Wilson Sporting Goods Co. for $62,900,000. Subsequent to December 26, 1970, the Company has increased its ownership to 81%. Operations of Wilson and the Company's share of related net income are included in the financial statements from date of purchase.

All domestic and foreign subsidiaries have been included in the consolidated financial statements with the exception of leasing subsidiaries which are carried at equity (see Note 7 for condensed financial information).

The Company's policy is to reflect in consolidated net income the current earnings of its foreign subsidiaries. Adequate provision has been made in the financial statements to give effect to the translation of foreign currencies at realistic rates. The total assets, total liabilities and net current assets of consolidated subsidiaries and branches outside of the United States and Puerto Rico stated in United States dollars were $173,500,000, $74,600,000 and $2,700,000 respectively, at December 26, 1970.

Certain 1969 amounts have been reclassified to conform to 1970 presentation.

Note 2—Sugar facility. In 1968, the Company leased its beet/cane sugar facility at Montezuma, New York. The plant's economic value became uncertain in 1969 when the lessee's financial difficulties jeopardized its ability to fulfill contractual obligations under the lease and subjected it to claims by materialmen with respect to facility rehabilitation contracted by it. Further, certain creditors initiated bankruptcy proceedings against the lessee in the U.S. District Courts of the Districts of New Jersey and Maine, and certain growers of sugar beets commenced litigation for alleged non-payment for sugar beets. The inability of the lessee to resolve the financial problems which existed at year-end 1969, obtain contemplated public financing, complete rehabilitation of, or maintain the facility, together with continuing failure to perform obligations under the lease, to remove the above-mentioned materialmen's liens on the facility and to satisfy tax and other claims, caused the Company to terminate the lease and to repossess the facility.

The lessee did not complete the plant rehabilitation and the plant is not in operable condition. Further, arrangements have not been made with sugar beet growers to assure an adequate supply of sugar beets for the facility. The Company has determined to dispose of the facility.

As a result of the resolution of the uncertainties existing at year-end 1969, a provision of $8,914,000 (net of $7,530,000 income tax benefit) has been made by an extraordinary charge to 1969 earnings to reduce the carrying value of the facility to estimated realizable value (less expenses) on disposal and the 1969 financial statements accordingly have been restated.

Note 3—Long-term debt. At December 26, 1970 and December 27, 1969 long-term debt (less current installments) consisted of:

	1970	1969
	(in thousands)	
Floating rate loan notes, 9½% at December 26, 1970 (6⅝% at February 28, 1971) due $2,000,000 annually to 1976; $6,000,000 in 1977; $19,000,000 in 1978, 1979 and 1980	$ 73,000	$ —
6½% subordinated debentures, due 1988	35,000	—
4½% convertible debentures, due 1981	22,578	28,412
9% (variable rate) Deutschmark notes payable, due 1972-1973	27,100	21,138
Other	19,836	41,562
	$177,514	$91,112

Note 4—Capital stock and capital in excess of par value. Shares reserved at December 26, 1970 were as follows:

Stock options	648,512
4½% convertible debentures (at $46.50 per share)	485,548
	1,134,060

At December 26, 1970 options were outstanding on 349,146 shares (of which 130,370 were then exercisable) having an aggregate option price of $14,711,602; the balance of 299,366 shares being available for future grants under the Company's 1964 and 1969 Plans. Changes in options during 1970 were as follows: granted as to 138,500 shares having an aggregate option price of $7,102,781; exercised as to 83,126 shares having an aggregate option price of $2,323,506 and cancelled as to 59,650 shares.

The increases in capital in excess of par value for 1970 and 1969 are as follows:

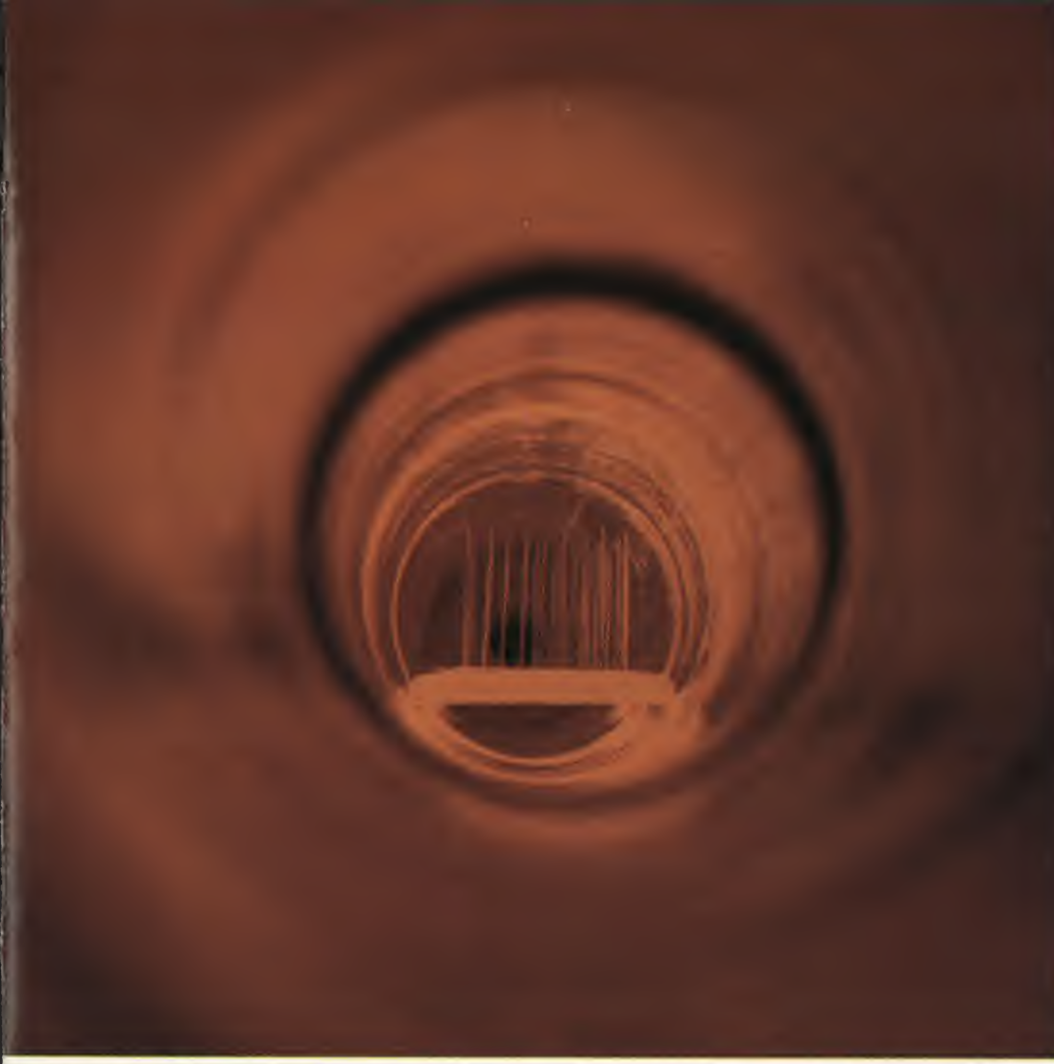
Excess of proceeds or conversion price over par value of shares issued under:	1970	1969
	(in thousands)	
Stock option plans	$2,310	$4,221
Conversion of debentures (125,436 shares in 1970)	5,277	1,511
Stock purchase warrant (120,000 shares in 1970)	1,480	—
	$9,067	$5,732

Note 5—Long-term leases and commitments. The Company and its subsidiaries are lessees under long-term leases for office space, plant and warehouse facilities expiring at various dates to 1992 having minimum aggregate annual rentals of $5,800,000 (exclusive of insurance, taxes and repairs).

At December 26, 1970 the Company and its subsidiaries were contingently liable as guarantors of loans, principally to franchise bottlers and distributors, aggregating $8,000,000.

The Company is also contingently liable for the repurchase of vending equipment

Notes continued on page 37.



...working overtime to make miniaturized electronic circuits, using ovens leased from Chandler Leasing Corp.... taking their kids to a football clinic put on for Wilson by Forty-Niners quarterback, John Brodie. But in all the varied activities of that weekend, those people had a common denominator: PepsiCo, its companies and their products. Because they enjoyed and bought its products, PepsiCo gained. In return, PepsiCo and its people play an important role in the community. The people in San Francisco have a lot to live. We've got a lot to give.


PEPSI

acquired by franchisees, unpaid balances by them to banks in this regard being $3,200,000 at December 26, 1970.

Note 6—Pensions. The Company and its subsidiaries have several non-contributory pension plans covering substantially all domestic employees and certain of its employees outside of the U.S. The Company's policy is to accrue and fund normal cost plus interest on unfunded prior service cost. Pension expense was approximately $7,300,000 in 1970.

Note 7—Leasing subsidiaries. The Company's investments in its leasing subsidiaries are carried at equity in their combined net assets.

The condensed combined financial statements of the leasing subsidiaries shown below at December 31, 1970 and 1969 and for the years then ended, include the activities of PepsiCo Leasing Corporation, Lease Plan, Inc., PepsiCo Truck Rental Corp., LPI Transportation Corp. (such operations previously had been conducted through PepsiCo Service Industries Leasing Corporation) and Pepsi-Cola Equipment Corp.

CONDENSED FINANCIAL POSITION	1970 (in thousands)	1969 (in thousands)
Cash	$ 17,921	$ 14,098
Leases, contracts and other receivables	293,525	285,712
Property and equipment, less accumulated depreciation (1970—$16,791,000; 1969—$11,535,000)	71,892	50,073
Other assets, including intangibles	13,489	9,608
Assets	396,827	359,491
Secured notes payable	218,224	201,042
Other notes payable	66,293	53,965
Accounts payable and accruals	14,809	22,899
Deferred federal income tax	21,153	15,573
Liabilities	320,479	293,479
PepsiCo equity in leasing subsidiaries	$ 76,348	$ 66,012
Represented by:		
Capital stock and surplus	$ 27,483	$ 14,365
Retained earnings	11,161	16,217
Net worth of leasing subsidiaries	38,644	30,582
Interest-bearing advances payable to PepsiCo, Inc. (including $34,000,000 in 1970 and $25,000,000 in 1969 of subordinated notes due in 1979 and 1980)	41,982	36,867
Less receivable from PepsiCo, Inc.	(4,278)	(1,437)
	$ 76,348	$ 66,012

CONDENSED STATEMENT OF INCOME AND RETAINED EARNINGS	1970 (in thousands)	1969 (in thousands)
Leasing and other income	$ 62,136	$ 41,127
Operating and administrative expenses (including depreciation: 1970—$10,971,000; 1969—$7,073,000)	45,032*	26,983
Interest expense (including $4,560,000 in 1970 and $1,100,000 in 1969 paid to PepsiCo, Inc.)	16,848	9,053
Total costs and expenses	61,880	36,036
Income before federal income tax	256	5,091
Provision for deferred federal income tax (including current—$2,258,000 refund in 1970 and $384,000 payable in 1969; less investment credit—$108,000 in 1970 and $552,000 in 1969)	244	2,201
Net income	12	2,890
Retained earnings at beginning of year	16,217	13,327
Transfers to capital surplus in corporate realignment	(5,068)	—
Retained earnings at end of year	$ 11,161	$ 16,217

*Includes losses of $2,506,000 related to revaluation of lessee receivables, billing adjustments and unrecovered expenses on vehicle purchases.

Secured notes payable are generally repayable as the related leases and contracts receivable are collected.

With respect to Pepsi-Cola Equipment Corp., engaged in providing leasing services to franchise Pepsi-Cola bottlers, PepsiCo, Inc. has guaranteed its 4½% notes payable of $20,000,000 due in 1972 (included in other notes payable); these obligations are not collateralized by the pledge of leases and contracts receivable or rental equipment.

Note 8—Litigation. The United States Government has commenced a civil antitrust action and a number of private civil antitrust actions (in most cases purporting to be class actions) have been brought against the Company's subsidiary, Frito-Lay, Inc., certain of its competitors and, in some instances, the Company, charging violations of antitrust laws in connection with sales of certain snack foods in California, Arizona and Nevada. All these actions are in preliminary stages. Although the outcome of the litigation cannot be predicted with certainty, management believes that an adverse result in any litigation would not materially affect the financial position of the Company.

Directors and Officers

PepsiCo, Inc. Directors
Herman W. Lay*†
Chairman of the Board, PepsiCo, Inc. and Chairman of the Finance Committee

Donald M. Kendall*†
President and Chief Executive Officer, PepsiCo, Inc. and Chairman of the Executive Committee

Charles Allen, Jr.*†
Senior Partner, Allen & Company, Investment Bankers

Angus S. Alston*
President
South Western Bell Telephone Co.

Victor A. Bonomo
President and Chief Executive Officer Pepsi-Cola Company and Vice President, Beverage Operations (U.S.), PepsiCo, Inc.

George Champion*†
President of Economic Development Council of New York City, Inc.

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Senior Partner
Lasker, Stone & Stern, Securities Brokerage Firm

Harold R. Lilley
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William B. Oliver
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Robert H. Stewart III†
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Peter K. Warren
President, PepsiCo International and Vice President, International Operations, PepsiCo, Inc.

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*Member of Executive Committee
†Member of Finance Committee

Officers
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Chairman of the Board

Donald M. Kendall
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Executive Vice President, Operations

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